

THE SEBAC PROPOSAL

***The below analysis was done on numbers from the 2008 actuarial evaluation. Underlying population will be different in 2010. The savings numbers on the normal retirement plan would also need to be adjusted (upward) if the current concept, which would encourage employees to remain at least until June 30th, 2012, were adopted, since that would delay some retirements by as much as two years, rather than one.**

Normal Retirement Savings

1) Health premium savings if employees expected to retire during the year delayed their retirement decision by one year

Based on the 2008 valuation, 1,270 pre-age -65 employees and 340 post-age-65 employees, for a total of 1,610, are expected to retire during the year. Assuming that **all** would delay their retirement by one year and based upon the assumptions below, the health actuaries project that the premium savings for 1,610 actives delaying retirement would provide **annual savings of approximately \$6 million**. Those employees under the age of 65 who choose to defer retirement will provide a projected premiums savings. However, those employees over 65 who choose to defer retirement will provide a projected premium expense. Over 65 employees create an expense because their rates are built assuming Medicare will be primary, which results in a rate lower than the active employee rates. The projected savings assume that all 1,610 employees would have retired if the incentives to delay retirement were not offered.

Assumptions:

1. This analysis is based on the current Anthem active rates compared to the current Anthem retiree rates.
2. No adjustments are made for demographic changes due to the potential change in the State's demographic composition.
3. 1,610 employees will choose to defer retirement. To the extent that fewer than 1,610 employees choose to defer retirement, the savings will be proportionally lower.
4. 90% of the group will choose the PPO plan.
5. 20% of the group is single and 80% of the group is two-party.
6. All 1,610 employees would have retired if the deferral were not offered.

7. No estimate was made for any employees who would not have retired during the year but who would benefit from the incentive intended to delay the retirement decision.
8. This projection only illustrates the change regarding current premiums and pay as you go costs.
9. This projection does not address the change to the overall OPEB liability or the ARC.
10. No additional budget savings associated with the OPEB liability calculations are assessed since the State has not budgeted the GASB 45 contributions.
11. Employee or retiree contributions have not been accounted for. The projections are comparing the full premiums.
12. All rate assumptions are based upon 2008/2009 Anthem rates.

2) Pension savings if employees expected to retire during the year delayed their retirement decision by one year

If the 1,610 expected to retire during the year would delay their retirement by one year, it would provide the State an **annual savings of approximately \$40 million.**

Hazardous Duty Retirement

I calculated rough estimates of the net savings under the two scenarios you outlined regarding the Hazardous Duty pension benefit enhancements intended to encourage postponing retirements. All my estimates are based on the most recent actuarial valuation report on the Connecticut State Employees Retirement System (June 30, 2008).

Under the first scenario, the retirement benefit of HD employees would be increased by 1% for each year that retirement is postponed after the later of July 1, 2009 or the attainment of 20 years of service, with a minimum of a full additional five years for the increased benefits to be effective.

I estimate that this proposal would reduce the State costs by approximately \$25.1 million a year, with a reduction of \$14.6 million in the normal cost and \$10.5 million in the payment to amortize the unfunded liabilities.

Under the second scenario, a temporary pension benefit increase equal to 1.33% of compensation, applicable only to years of service before June 30, 2012, would be effective for HD employees retiring between July 1, 2012 and September 30, 2012. This enhanced benefit would only apply to participants with 20 or more years of service, i. e., employees already eligible to HD retirement on June 30, 2009.

Because of the temporary nature of this second scenario, the savings would be less than for the first one. While 88% of Tier I participants would be eligible for the enhanced benefit, only 16.8%

of Tier II and less than 0.1% of Tier IIA HD employees would be eligible. Therefore, I would estimate the net savings resulting from delayed retirement under this scenario at between \$10 million and \$12 million.
